



**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**

Stephen C. Taylor  
Commissioner

**BEFORE THE  
INSURANCE COMMISSIONER OF  
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **Attorneys Insurance Mutual of the South, Inc., Risk Retention Group**, as of December 31, 2015

**ORDER**

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Attorneys Insurance Mutual of the South, Inc., Risk Retention Group** (the “Company”), as of December 31, 2015 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 21<sup>st</sup> day of March, 2017, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

Pursuant to D.C. Official Code § 31-1404(d)(1), this Order is considered a final administrative decision, and may be appealed.

Pursuant to D.C. Official Code § 31-1404(d)(1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

Pursuant to D.C. Official Code § 31-1404(e)(1), the Department will continue to hold the content of the above-referenced report as private and confidential information for a period of 10 days from the date of this Order.

  
\_\_\_\_\_  
Stephen C. Taylor  
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

Attorneys Insurance Mutual of the South, Inc.,  
Risk Retention Group

AS OF

DECEMBER 31, 2015

NAIC NUMBER 33677

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Washington, D.C.  
November 17, 2016

Honorable Stephen C. Taylor  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Commissioner Taylor:

In accordance with Section 31-3931.14 of the District of Columbia Official Code (“Code”), and with Chapter 14 of Title 31 of the Code, we have examined the financial condition and activities of

**Attorneys Insurance Mutual of the South, Inc.,  
Risk Retention Group**

hereinafter referred to as the “Company”, located at 200 Inverness Parkway, Birmingham, Alabama 35242-4813.

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period from January 1, 2011 through December 31, 2015, including any material transactions and/or events noted occurring subsequent to December 31, 2015, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”). The last examination was completed as of December 31, 2010 by the Department.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the Code and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2011 through 2015. We placed substantial reliance on the audited financial statements for calendar years 2011 through 2014, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2015. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2015. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The results of this examination disclosed no material changes in financial statements. However, several areas related to the Company's information systems general controls were noted where controls could be strengthened. See the "Summary of Recommendations" section of this Report for further comments regarding these conditions.

### **STATUS OF PRIOR EXAMINATION FINDINGS**

A full scope financial examination was conducted by the Department as of December 31, 2010, which covered the period January 1, 2006 through December 31, 2010. The Report on the prior examination, dated February 13, 2012, did not include any exception conditions or recommendations.

### **HISTORY**

#### **General:**

The Company was incorporated as a mutual insurance corporation under the laws of Alabama on May 19, 1988 and commenced business on July 1, 1989, providing professional liability insurance to attorneys who were residents of, and practiced law in the State of Alabama.

On August 11, 2010, the Company re-domiciled from the State of Alabama to the District of Columbia, becoming licensed in the District of Columbia as a mutual captive insurer, operating as a risk retention group under the captive insurance laws of the District of Columbia.

As of the date of this report, the Company is registered with and writes business in the states of Alabama and Tennessee. The Company is a self-managed captive insurer and its daily business

operations are managed by its employees, officers, and directors.

Membership and Capitalization:

As a mutual risk retention group, the Company's policyholders are its members. The policyholders/members ultimately own and control the Company. At December 31, 2015, the Company had 1,079 active policies eligible for membership that covered over 1,900 attorneys. Each covered attorney is counted as one member and is entitled to one vote in the election of directors and all other matters submitted to a vote at a meeting of the members. Members must be individuals engaged in the practice of law.

Per the Company's bylaws, the board of directors is authorized to require that each applicant for membership pay fees, or other contributions, and/or purchase surplus debentures of the Company when the board of directors determines as necessary to secure and maintain the Company's operations and surplus under applicable law. The Company's initial capital was obtained by issuing eight (8) percent series subordinated surplus debentures ("Debentures") to its initial policyholders. A portion of each Debenture was redeemable and a portion was considered a non-refundable surplus contribution. No membership fees, contributions, or surplus Debentures have been required from members since May, 2000, and in 2006 the Company redeemed the redeemable portion of all outstanding Debentures for a total of \$1,914,000. As of December 31, 2015, the Company reported members' contributed surplus of \$1,111,186, which represents paid in surplus from the non-refundable portions of the surplus Debentures.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

**MANAGEMENT AND CONTROL**

Board of Directors and Officers:

The Company's directors serving as of December 31, 2015 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Henry T. Henzel Alabama	Chairman and President Attorneys Insurance Mutual of the South, Inc., Risk Retention Group
Lee R. Benton Alabama	Attorney-at-Law Benton & Centeno
Claire A. Black Tisdal Alabama	Attorney-at-Law Self-Employed

Thomas E. Drake Alabama	Attorney-at-Law Drake & Drake
P. Richard Hartley Alabama	Attorney-at-Law Hartley & Hickman
L. Tennent Lee, III Alabama	Attorney-at-Law Retired
Charles H. Moses, III Alabama	Attorney-at-Law Moses & Moses, P.C.
James J. Odom, Jr. Alabama	Attorney-at-Law Self-Employed
Phillip E. Stano Maryland	Attorney-at-Law Sutherland, Asbill & Brennan, LLP
Sharon D. Stuart Alabama	Attorney-at-Law Christian & Small, LLP

The Company's officers serving as of December 31, 2015 were as follows:

<u>Name</u>	<u>Title</u>
Henry T. Henzel	Chairman and President
Charles H. Moses, III	Treasurer and Secretary
Wilma S. Fields	Vice President

Committees:

As of December 31, 2015, the Company's board of directors had established the following committees:

Executive Committee:

Henry T. Henzel, Chair  
James J. Odom, Jr.  
L. Tennent Lee, III  
Charles H. Moses, III  
Sharon D. Stuart

Investment/Audit Committee:

Charles H. Moses, III, Chair  
Thomas E. Drake  
James J. Odom, Jr.  
Lee R. Benton  
P. Richard Hartley

Claims Committee:

L. Tennent Lee, III, Chair  
P. Richard Hartley  
Phillip E. Stano  
Claire A. Black Tisdal  
Lee R. Benton

Personnel Committee:

Claire A. Black Tisdal, Chair  
Henry T. Henzel  
Charles H. Moses, III  
Sharon D. Stuart  
Phillip E. Stano

Legislative Committee:

Thomas E. Drake, Chair  
James J. Odom, Jr.  
P. Richard Hartley  
Henry T. Henzel

Underwriting Committee:

Phillip E. Stano, Chair  
Henry T. Henzel  
Charles H. Moses, III  
Sharon D. Stuart  
Lee R. Benton

Marketing Committee:

Sharon D. Stuart, Chair  
James J. Odom, Jr.  
Henry T. Henzel  
Charles H. Moses, III  
L. Tennent Lee, III

Nominating Committee:

Sharon D. Stuart, Chair  
Thomas E. Drake  
James J. Odom, Jr.

Conflicts of Interest:

Our review of the conflict of interest statements completed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and members for the period under examination. Based on our review, it appears that the minutes documented the review and approval of the Company's significant transactions and events.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2015, the Company was licensed in the District of Columbia and registered as a risk retention group in Alabama and Tennessee. Ninety-eight percent of its 2015 premiums, which totaled approximately \$3,523,000, were written in Alabama.

The Company provided professional liability insurance coverage exclusively to its members, who were attorneys practicing law in the states of Alabama and Tennessee. Coverage included lawyers professional liability insurance on a claims-made basis, as well as extended reporting (discovery or tail) endorsements. Limits offered were up to \$10,000,000 per claim and annual aggregate, in excess of policyholders' deductibles ranging from \$1,000 to \$50,000 for each loss. At a minimum, policy limits offered were \$100,000 per claim and \$300,000 annual aggregate. Most of the Company's active policies were written with limits of \$1,000,000. Insurance policies



with limits up to \$20,000,000 per claim and annual aggregate were available through facultative placement. However, there were no policies at December 31, 2015 written with limits in excess of \$10,000,000. The Company retains the first \$125,000 of each claim, reinsuring the excess with various reinsurers. See the “Reinsurance” section of this report for details regarding the Company’s reinsurance program.

The Company’s policyholders and members consist of sole practitioners and firms with fewer than 50 attorneys and consist primarily of general practitioners.

From inception of operations, the Company has performed all major functions in-house and does not utilize a captive manager. Major functions performed include direct underwriting, claims, accounting and marketing. During the review of the Company’s operations, several areas related to the Company’s information system general controls were noted where controls could be strengthened. See further comments regarding these areas in the “Summary of Recommendations” section of this Report.

## **REINSURANCE**

### **Assumed Reinsurance:**

The Company did not assume any business during the examination period.

### **Ceded Reinsurance:**

The Company ceded business to various reinsurers under four layers of excess of loss treaties and one facultative agreement. Under these reinsurance arrangements, the Company’s maximum retention in any one risk per occurrence was \$125,000 on a claims-made basis. The four layers of excess of loss coverage provide coverage up to \$10,000,000 in excess of the \$125,000 retained by the Company. The facultative agreement provided \$10,000,000 in excess of \$10,000,000 for those policies written in excess of the Company’s \$10,000,000 coverage limit. There were no policies at December 31, 2015 written in excess of the Company’s \$10,000,000 coverage limit that would trigger the use of the facultative agreement.

All of the Company’s reinsurers are approved by the Department as authorized reinsurers. During 2015, the Company ceded premiums totaling approximately \$1,416,000, and as of December 31, 2015, the Company reported estimated reinsurance recoverable on unpaid losses and ceded unearned premiums totaling approximately \$2,721,000 and \$518,000, respectively. If the reinsurers are unable to meet the obligations under the treaties, the Company would be liable for any defaulted amounts.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2015. The financial statements were prepared in accordance with statutory accounting principles. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying notes to financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

<b><u>STATEMENT</u></b>	<b><u>PAGE</u></b>
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## BALANCE SHEET

### ASSETS

	<i>December 31, 2015</i>
Bonds	\$ 6,410,338
Common stocks	1,286,190
Real estate properties occupied by the Company	714,773
Cash (\$1,727,389) and short-term investments (\$1,493,407) (NOTE 1)	<u>3,220,796</u>
Subtotals, cash and invested assets	\$ 11,632,097
Investment income due and accrued	30,053
Uncollected premiums and agents' balances in the course of collection	91,158
Amounts recoverable from reinsurers	15,070
Electronic data processing equipment and software	10,586
Aggregate write-ins for other than invested assets: Other receivables	3,855
Total	<u>\$ 11,782,819</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<i>December 31, 2015</i>
Losses ( <b>NOTE 2</b> )	\$ 1,641,000
Loss adjustment expenses ( <b>NOTE 2</b> )	1,146,000
Other expenses (excluding taxes, licenses and fees)	352,695
Taxes, licenses and fees (excluding federal and foreign income taxes)	48,705
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$517,375)	1,210,322
Advance premium	116,081
Ceded reinsurance premiums payable (net of ceding commissions)	319,961
Funds held by Company under reinsurance treaties	60,252
Amounts withheld or retained by Company for account of others	<u>1,879</u>
 Total Liabilities	 \$ <u>4,896,895</u>
 Gross paid in and contributed surplus	 \$ 1,111,186
Unassigned funds (surplus)	<u>5,774,738</u>
 Surplus as regards policyholders	 \$ <u>6,885,924</u>
 Total	 \$ <u><u>11,782,819</u></u>

# STATEMENT OF INCOME

	<i>2015</i>
UNDERWRITING INCOME	
Premiums earned	\$ 2,064,039
DEDUCTIONS	
Losses incurred	\$ (598,874)
Loss expenses incurred (NOTE 3)	882,890
Other underwriting expenses incurred (NOTE 3)	<u>2,090,351</u>
Total underwriting deductions	<u>\$ 2,374,367</u>
Net underwriting gain (loss)	\$ (310,328)
INVESTMENT INCOME	
Net investment income earned	\$ 115,876
Net realized capital gains (losses) (NOTE 4)	<u>(280,844)</u>
Net investment gain (loss)	(164,968)
Net income (loss) before dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ (475,296)
Dividends to policyholders	-
Net income (loss) after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ (475,296)
Federal and foreign income taxes incurred	-
Net income (loss)	<u><u>\$ (475,296)</u></u>

### **CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2010	\$ <u>7,888,123</u>
Net income, 2011	113,718
Change in net unrealized capital gains or (losses)	(253,110)
Change in net deferred income tax	135,000
Change in nonadmitted assets	111,213
Change in provision in reinsurance	<u>311,000</u>
Net change in surplus as regards policyholders, 2011	<u>417,821</u>
Surplus as regards policyholders, December 31, 2011	\$ <u>8,305,944</u>
Net loss, 2012	(556,911)
Change in net unrealized capital gains or (losses)	248,609
Change in net deferred income tax	(102,000)
Change in nonadmitted assets	<u>100,608</u>
Net change in surplus as regards policyholders, 2012	<u>(309,694)</u>
Surplus as regards policyholders, December 31, 2012	\$ <u>7,996,250</u>
Net income, 2013	40,220
Change in net unrealized capital gains or (losses)	(99,274)
Change in net deferred income tax	(501,140)
Change in nonadmitted assets	<u>301,597</u>
Net change in surplus as regards policyholders, 2013	<u>(258,597)</u>
Surplus as regards policyholders, December 31, 2013	\$ <u>7,737,653</u>
Net loss, 2014	(194,314)
Change in net unrealized capital gains or (losses)	(215,668)
Change in nonadmitted assets	<u>(37,744)</u>
Net change in surplus as regards policyholders, 2014	<u>(447,726)</u>
Surplus as regards policyholders, December 31, 2014	\$ <u>7,289,927</u>
Net loss, 2015	(475,296)
Change in net unrealized capital gains or (losses)	(22,911)
Change in net deferred income tax	51,140
Change in nonadmitted assets	<u>43,064</u>
Net change in surplus as regards policyholders, 2015	<u>(404,003)</u>
Surplus as regards policyholders, December 31, 2015	\$ <u>6,885,924</u>

## **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of our examination.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1: Cash and Short-Term Investments:**

As of December 31, 2015, the Company reported "Cash and short-term investments" totaling \$3,220,796. This amount includes \$504,192 cash deposited in a trust account with the Department as a beneficiary. In conjunction with the re-domestication in 2010, the Company was required to establish and maintain a trust account with a minimum balance of \$500,000 at all times for the benefit of the Department. The Company has discretion over the investments in the account within guidelines established by the Department, and is entitled to receive investment income on the funds. As of December 31, 2015, the Company held assets in the trust account with a market value of \$504,192, which was in excess of the \$500,000 requirement.

### **NOTE 2 - Losses and Loss Adjustment Expense Reserves:**

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$1,641,000 and \$1,146,000, respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2015. Reserve credits taken as of December 31, 2015 for cessions to reinsurers totaled approximately \$2,721,000, which is reported as a deduction from gross losses and loss adjustment expenses reserves liabilities. If the reinsurers are unable to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts. The Company did not discount its reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2015, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary who concluded that the Company's reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations. In addition, as part of our review of the Company's reserves, we utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The examination actuary concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2015, were reasonable and adequate.

### **NOTE 3 - Loss Expenses Incurred and Other Underwriting Expenses Incurred:**

The Company reported "Loss expenses incurred" and "Other underwriting expenses incurred" totaling \$882,890 and \$2,090,351, respectively, on its income statement. However, \$340,000 of "Loss expenses incurred" were incorrectly included in "Other underwriting expenses incurred" on the income statement. If this amount was reported correctly, the Company's reported "Loss

expenses incurred” and “Other underwriting expenses incurred” as of December 31, 2015 would be \$1,222,890 and \$1,750,351, respectively. Because this classification error has no impact on the Company’s reported net income, surplus, reserves, or any other accounts, no adjustment has been made for purposes of our financial examination. During our examination we discussed this error with the Company and the Company indicated this was an inadvertent error.

**NOTE 4 - Net realized capital losses; Permitted Practice:**

The Company reported “Net realized capital losses” totaling \$280,844. This amount included a write-down totaling \$318,392 for impairment of certain equity securities that had been in an unrealized loss position for an extended period of time which was offset by gains totaling \$37,548 from sales of other securities. The impairment reduced net income by the same amount but did not impact surplus as equities are reported at market value.

During 2015 the Department granted the Company a permitted accounting practice which differs from NAIC statutory accounting practices. Specifically, for year-end 2015 reporting, the Department approved the Company’s request to allow the Company to utilize a predefined threshold in the determination of whether an investment is other than temporarily impaired. NAIC statutory accounting practices do not stipulate or recommend the use of a predefined threshold in the assessment of whether an investment is other than temporarily impaired but require the use of all relevant quantitative and qualitative factors in such an analysis. While not specifically stated in the relevant statutory accounting guidance, recognized interpretations of the guidance assume investments with fair values that are 20 percent or more below the original cost value, and that have been in that position for a continuous period of six months or more, to be potentially impaired. The predefined threshold permitted by the Department for the year ending 2015 required that all investments with fair values that are 50 percent or more below the original cost value, and that have been in that position for a continuous period of one year or more, to be impaired. Using the recognized threshold of 20 percent or more below the original cost value for a continuous period of six months or more would have resulted in additional impairment write-downs totaling approximately \$506,000. The permitted practice had no impact on the Company’s NAIC SAP surplus.

During 2016, the Department approved a revision to the impairment provisions of the Company’s investment policy requiring all investments with fair values that are 20 percent or more below the original cost value and that have been in that position for a continuous period of one year or more be evaluated to determine impairments that are other than temporary.

**SUBSEQUENT EVENTS**

We noted no significant subsequent events as of the date of this report.



## SUMMARY OF RECOMMENDATIONS

### Information Systems General Controls

The Company uses an electronic data processing system to process certain of its critical applications. These include the general ledger, policy management, and claims processing functions. Our examination included a review and evaluation of the general controls in place over the information systems utilized to process the Company's transactions. Information systems general controls (ISGCs) are the policies and procedures that help ensure proper operation and security of computer systems, including controls over software acquisition and maintenance, data back-up and access security. ISGCs, which are based on uniform, commonly recognized and accepted industry standards, are outlined in the NAIC Financial Condition Examiners Handbook ("Handbook") and are required by the Handbook to be reviewed and evaluated as part of all financial examinations conducted in accordance with the Handbook. ISGCs provide a foundation necessary to ensure the completeness, integrity, security and current and future availability of information systems and data. An effective information systems general control environment can therefore protect the company and policyholders by providing assurance regarding the overall reliability of a company's information systems and the reports generated from those systems, and provide assurance that currently and going forward the company's systems and data are secure, protected and preserved.

During our review, we noted the following:

#### Information Systems Vendor Agreements:

The Company utilizes two service providers which provide critical support and service to the Company's information systems. However, the Company did not have written contracts with these service providers. Written contracts serve to outline the roles, responsibilities and rights of the parties to the contract, and address other issues such as the ownership of the work product. Written contracts also serve to outline requirements regarding deliverables, performance standards and credentials of the service providers. **To strengthen ISGCs and to improve protection of policyholder interests, we recommend that the Company execute written contracts with its service providers.**

#### Backup Procedures:

The Company's encrypted daily backups are taken off-site each evening to one of two locations. However, these locations do not provide adequate protection and security for the data. During our examination we discussed in detail with Company management the reasons why these locations do not provide adequate protection and security for the data. **To strengthen ISGCs and to improve protection of policyholder interests, we recommend that the Company revise its backup procedures to include at least one backup version at a more secure location such as a bank vault or an off-site professional records management provider.**

Physical Access:

Physical access to the Company's computer facility, which includes storage of on-site back-ups, is not adequately restricted. During our examination we discussed in detail with Company management the reasons why physical access is not adequate and we discussed ways in which physical access controls can be strengthened. Improving controls over physical access serves to better protect against both intentional and unintentional events that may damage the computing environment. **To strengthen ISGCs and to improve protection of policyholder interests, we recommend that physical access to the Company's computer facility be strengthened as discussed with Company management during the examination.**

### SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Thomas Mayberry, CFE, EWM Group, PC  
Paul Sliwinski, ARe, EWM Group, PC  
Chris Davis, EWM Group, PC  
Jenny Jeffers, CISA, AES, Jennan Enterprises  
Joanna Latham, CISA, AES, CFE, Jennan Enterprises

The actuarial portion of this examination was completed by David A. Christhlf, ACAS, MAAA, District of Columbia Department of Insurance, Securities and Banking.

Respectfully submitted,



Philip Engelhart, CFE, AIAF  
Examiner-In-Charge  
EWM Group, PC

Under the Supervision of,



Xiangchun (Jessie) Li, CFE  
Supervising Examiner  
District of Columbia Department of Insurance,  
Securities and Banking



**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**

**Stephen C. Taylor**  
**Commissioner**

February 3, 2017

Henry T. Henzel  
Attorneys Insurance Mutual of the South, Inc., Risk Retention Group  
200 Inverness Center Parkway  
Birmingham, AL, 35242-4813

RE: Examination of **Attorneys Insurance Mutual of the South, Inc., Risk Retention Group**,  
as of December 31, 2015

Dear Mr. Henzel:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of Attorneys Insurance Mutual of the South, Inc., Risk Retention Group (the "Company") as of December 31, 2015.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled "Summary of Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no "Summary of Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by March 3, 2017. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to [sean.odonnell@dc.gov](mailto:sean.odonnell@dc.gov).

Sincerely,

Sean O'Donnell  
Director of Financial Examination,  
Risk Finance Bureau

Enclosure

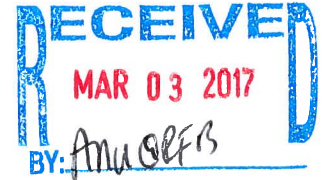


## Attorneys Insurance Mutual of the South, Inc. Risk Retention Group

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**8024 6285 7266**

March 2, 2017



Mr. Sean O'Donnell, CFE, CPA  
Director of Financial Examination,  
Risk Finance Bureau  
Department of Insurance, Securities and Banking  
810 First Street, N.E.  
Suite 701  
Washington, D.C. 20002

Re: Draft of AIM Examination as of December 31, 2015

Dear Sean:

This letter is in response to yours of February 3, 2017, transmitting a draft of this company's above-referenced examination. As previously discussed and reflected in prior correspondence, AIM disagrees with DISB's recommendations as follows:

**DISB's Information Systems Vendor Agreements Recommendation:**

"A" The Company utilizes two service providers which provide critical support and service to the Company's information systems. However, the Company did not have written contracts with these service providers. Written contracts serve to outline the roles responsibilities and rights of the parties to the contract, and address other issues such as the ownership of the work product. Written contracts also serve to outline requirements regarding deliverables, performance standards and credentials of the service providers. To strengthen ISGSs and to improve protection of policyholder interests, we recommend that the Company execute written contracts with its service providers.

**"Serving Attorneys Since 1989"**

Henry T. Henzel, Esq.,  
President, to  
Sean O'Donnell, CFE, CPA;  
Re: Draft of AIM Examination  
as of December 31, 2015;  
March 2, 2017;  
Page 2 of 4.

**AIM's RESPONSE:**

**AIM disagrees with DISB's recommendation. AIM has all the rights of a licensee to its software used in its business and full possession of all templates developed for AIM by various vendors who have worked on its templates. There is adequate documentation to allow a qualified IT person to maintain and modify its templates. AIM has reviewed contracts utilized in Birmingham by computer services providers. Computer providers who use written contracts employ form contracts drafted to limit the provider's liability, demand lengthy term, automatic renewals, disadvantageous termination provision, and generally employ wording that works to the disadvantage of the recipient of services. Since inception AIM has successfully obtained computer services help without a written contract and with the flexibility of terminating a provider as necessary. AIM is managed by a board of directors of attorneys who understand the difference between having a written contract and contracting under the common law of Alabama. The common law of Alabama provides AIM with superior rights over that which it could obtain in written contracts utilized by computer service providers. AIM will continue to evaluate the advantage of employing a written contract with a computer service provider as circumstances warrant. If AIM ever sees a written contract it likes, it will sign it.**

**DISB's Backup Procedures Recommendation:**

**"B"** The Company's encrypted daily backups are taken off-site each evening to one of two locations. However, these locations do not provide adequate protection and security for the data. During our examination we discussed in detail with the Company management the reasons why these locations do not provide adequate protection and security for the data. To strengthen ISGCs and to improve protection of policyholder interests, we recommend that the Company revise its backup procedures to include at least one backup version at a more secure location such as a bank vault or an off-site professional records management provider.

Henry T. Henzel, Esq.,  
President, to  
Sean O'Donnell, CFE, CPA;  
Re: Draft of AIM Examination  
as of December 31, 2015;  
March 2, 2017;  
Page 3 of 4.

**AIM's RESPONSE:**

**AIM disagrees with DISB's recommendation. Since the last examination, AIM has increased the number of off-site locations used for safekeeping of its encrypted back-up data tapes. The sites are adequately secure in relationship to any risk that could be encountered at them. The locations are significantly distant from AIM as measured in air miles removing the possibility of a natural disaster destroying all locations at once. The likelihood of simultaneous failure of AIM's multiple retention sites due to any conceivable cause is de minimis. The recommendation of DISB is burdensome and unnecessary. AIM will re-evaluate a need for supplementing its data back-up as circumstances change.**

**DISB's Physical Access Recommendation:**

**"C"** Physical access to the Company's computer facility, which includes storage of on-site back-ups, is not adequately restricted. During our examination we discussed in detail with Company management the reasons why physical access is not adequate and we discussed ways in which physical access controls can be strengthened. Improving controls over physical access serves to better protect against both intentional and unintentional events that may damage the computing environment. To strengthen ISGCs and to improve protection of policyholder interests, we recommend that physical access to the Company's computer facility be strengthened as discussed with Company management during the examination.

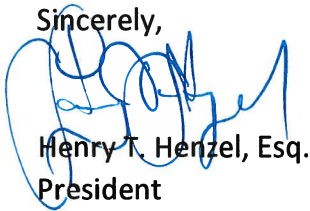
**AIM's RESPONSE:**

**AIM disagrees with DISB's recommendation. AIM has never incurred theft in its history. Its office site is secure. Its file server is located in a remote area of its building not accessible to ordinary visitors. No data has ever been stolen from AIM. AIM will re-evaluate a need for greater controls as circumstances change.**

Henry T. Henzel, Esq.,  
President, to  
Sean O'Donnell, CFE, CPA;  
Re: Draft of AIM Examination  
as of December 31, 2015;  
March 2, 2017;  
Page 4 of 4.

AIM requests that the report recommendations be withdrawn. If DISB declines to withdraw its recommendations, then the responses are offered for publication with the report and rebuttable of its recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read "HTH", is written over the typed name and title.

Henry T. Henzel, Esq.  
President

HTH/eac





**Government of the District of Columbia  
Department of Insurance, Securities and Banking**

**Stephen C. Taylor  
Commissioner**

March 17, 2017

Henry T. Henzel  
Attorneys Insurance Mutual of the South, Inc., Risk Retention Group  
200 Inverness Center Parkway  
Birmingham, Alabama 35242-4813

RE: Examination of **Attorneys Insurance Mutual of the South, Inc., Risk Retention Group**  
("Company"), as of December 31, 2015

Dear Mr. Henzel:

The District of Columbia Department of Insurance, Securities and Banking ("Department") is in receipt of the Company's response, dated March 2, 2017, regarding the Report on Examination ("Report") of the Company as of December 31, 2015. The Department's comments regarding the Company's response are as follows:

**Examination Recommendation 2**

**Information Systems General Controls - Backup Procedures:**

**To strengthen ISGCs and to improve protection of policyholder interests, we recommended that the Company revise its backup procedures to include at least one backup version at a more secure location such as a bank vault or an off-site professional records management provider.**

**Company Response to the Above Recommendation:**

AIM disagrees with DISB's recommendation. Since the last examination, AIM has increased the number of off-site locations used for safekeeping of its encrypted back-up data tapes. The sites are adequately secure in relationship to any risk that could be encountered at them. The locations are significantly distant from AIM as measured in air miles removing the possibility of a natural disaster destroying all locations at once. The likelihood of simultaneous failure of AIM's multiple retention sites due to any conceivable cause is de minimis. The recommendation of DISB is burdensome and unnecessary. AIM will re-evaluate a need for supplementing its data back-up as circumstances change.

Henry T. Henzel  
Attorneys Insurance Mutual of the South, Inc., Risk Retention Group  
March 17, 2017  
Page 2 of 3

Department Response to the Company's Response:

To further clarify the Department's recommendation, the backup version maintained at a more secure location such as a bank vault or an off-site professional records management provider does not need to be the daily backup. This version can be the weekly or monthly back-up.

**Examination Recommendation 3**

**Information Systems General Controls - Physical Access:**

**To strengthen ISGCs and to improve protection of policyholder interests, we recommended that physical access to the Company's computer facility be strengthened as discussed with Company management during the examination.**

Company Response to the Above Recommendation:

AIM disagrees with DISB's recommendation. AIM has never incurred theft in its history. Its office site is secure. Its file server is located in a remote area of its building not accessible to ordinary visitors. No data has ever been stolen from AIM. AIM will re-evaluate a need for greater controls as circumstances change.

Department Response to the Company's Response:

To further clarify the Department's recommendation, using a keypad lock to restrict access to the computer facility would address the Department's concerns.

The adopted Report (which includes copies of the Company's March 2, 2017 response and of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the District of Columbia Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company's directors stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if there are any questions.

Henry T. Henzel  
Attorneys Insurance Mutual of the South, Inc., Risk Retention Group  
March 17, 2017  
Page 3 of 3

Sincerely,

A handwritten signature in cursive script that reads "Sean O'Donnell". The signature is fluid and written in dark ink.

Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau